



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

Legislative Retirement Note

BILL NUMBER: Senate Bill 389 (First Edition)

SHORT TITLE: Open Enrollment/Contributory Death Benefit.

SPONSOR(S): Senator Randleman

FUNDS AFFECTED: Premiums paid by State and local government retirees

SYSTEM OR PROGRAM AFFECTED: Contributory Death Benefit (CDB)

BILL SUMMARY: Senate Bill 389 (First Edition) directs the Department of State Treasurer, Retirement Systems Division, to allow open enrollment in the CDB for retired members of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Local Governmental Employees' Retirement System, beginning September 1, 2017, and ending December 1, 2017. Those electing to enroll during this period will pay premiums that are 12% higher than the premiums established for the retiree had the retiree elected coverage upon retirement. Benefits are supported entirely by premiums paid by participating retirees and investment returns on those premiums.

EFFECTIVE DATE: The bill is effective when it becomes law.

ESTIMATED IMPACT ON STATE:

Conduent, the actuary for the CDB, estimates that the deficit in the CDB will increase by \$92,000 if all eligible retirees enroll and will decrease by \$297,000 if the ages of the retirees electing coverage during the period are similar to the ages of those electing coverage during the 2008 open enrollment. Conduent notes that the impact could be significantly different depending on the distribution of ages of those electing coverage.

Hartman & Associates, the actuary for the General Assembly, estimates that the financial impact of this bill will range from negligible to a slight gain in the CDB.

Both actuaries noted the risk of anti-selection, which is the risk that those choosing to enroll will have shorter lifespans than the overall retiree population and thus that the premiums and investment returns will not cover the benefits paid on average. The 12% additional premium and requirement to live at least 24 months to collect the full benefit somewhat mitigate this risk.

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2015 actuarial valuations, as well as data on those electing coverage during the 2008 open enrollment under SL 2007-388. Significant membership and financial statistics, assumptions, and methods are shown in the

following tables:

Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions)	
Count	115,037 (out of 244,841 total State and local retirees)
Annual Benefits	\$24M
Annual Premiums Paid	\$24M
Average Age	69

Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions)	
Liabilities	\$561M
Current Assets	\$236M
Present Value of Future Contributions from Members	\$251M
Deficit (Liabilities – Assets – Future Contributions)	\$75M
Assumed Rate of Investment Return	3.75%
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015	

Benefit Provisions	
Formula	\$10,000 payable upon death after 24 months of coverage; Return of contributions if death occurs earlier
Retiree premiums	Vary with age and date of retirement; between \$10 and \$100 per month for most retirees

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

SOURCES OF DATA:

Conduent, “Open Enrollment / Contributory Death Benefit – Senate Bill 389”, April 24, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Senate Bill 389: An Act to Provide for an Open Enrollment Period in the Contributory Death Benefit for Retired Members of the TSERS, CJRS, LRS, and LGERS”, April 18, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

PREPARED BY: David Vanderweide

APPROVED BY:

Mark Trogdon, Director
Fiscal Research Division

DATE: April 26, 2017



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